



Child Care Assistance Program: Assessment of Internal Controls

SPECIAL REVIEW
April 10, 2019

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

State of Minnesota
Office of the Legislative Auditor

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OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA • James Nobles, Legislative Auditor

April 10, 2019

Members of the Legislative Audit Commission:

In response to a request from several legislators, the Office of the Legislative Auditor conducted a limited scope review of the Department of Human Services' (DHS's) internal controls for Minnesota's Child Care Assistance Program (CCAP). We found weaknesses in DHS's program integrity controls and concluded that both DHS and local human services agencies must do more to effectively prevent, detect, and investigate fraud in CCAP.

Our review was conducted by Valerie Bombach, Audit Director; and Tyler Billig, CPA; Bill Dumas; Gabbie Johnson, CPA; Alec Mickelson; Erick Olsen; and Todd Pisarski, CPA, CFE. The Department of Human Services cooperated fully with our review. A letter from the Commissioner of Human Services, Tony Lourey, is included in this report.

Sincerely,

James Nobles
Legislative Auditor

Valerie Bombach
Audit Director



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INTRODUCTION

In early May 2018, a Minnesota television news station reported allegations of widespread fraud in the Minnesota Child Care Assistance Program (CCAP).¹ Shortly after the news report, legislators held a hearing to discuss the allegations. During the hearing, some individuals questioned whether the Minnesota Department of Human Services (DHS) had fulfilled its responsibility to oversee CCAP and ensure integrity and accountability in the program. They suggested that an independent review of DHS's internal control processes to stop child care fraud was needed.

Later in May 2018, a group of legislators asked the Office of the Legislative Auditor (OLA) to conduct such a review of DHS and CCAP. Because OLA staff were fully engaged on other financial audits and special investigations, we were unable to commence a comprehensive review that addressed the full scope of concerns about the program. However, we agreed to conduct a limited review of specific issues. The results of our work are presented in two separate reports: this report and the companion report *Child Care Assistance Program: Assessment of Fraud Allegations*.²

In this report, we present our overall conclusions about selected DHS internal controls to prevent, promptly detect, and address improper CCAP payments, including fraud.

SCOPE OF REVIEW

The scope of our work for this report covered selected internal controls in place during Fiscal Year 2018 to prevent, detect, and recover improper payments in CCAP. Our audit objective was to determine whether DHS's oversight of CCAP was adequate to safeguard financial resources of the program. Specifically, we examined certain DHS controls to:

- Limit access to CCAP to only those participants who were eligible.
- Ensure that child care centers were adequately monitored.
- Review and authorize payments to child care providers.
- Identify and assess the risk of improper payments in CCAP.

We examined DHS's policies and reviewed the design of selected eligibility and financial controls for CCAP. However, we did not test the effectiveness of controls at DHS or local human services agencies, or how well those controls were implemented.

¹ See <http://www.fox9.com/news/investigators/millions-of-dollars-in-suitcases-fly-out-of-msp-but-why>, accessed March 5, 2019.

² Office of the Legislative Auditor, Special Review, *Child Care Assistance Program: Assessment of Fraud Allegations* (March 13, 2019).

METHODS

To conduct our work, we reviewed federal and state legal requirements and DHS policies, processes, and guidance to local human services agencies. We interviewed representatives from the U.S. Department of Health and Human Services' Office of Inspector General, DHS, county human services agencies, and other stakeholders with expertise in this subject area. We also reviewed literature and recommendations by the federal government, other states, and child care program administrators for addressing fraud in child care assistance programs. Lastly, we examined documents, sample case files, and data provided by DHS and county agencies.

We first provide background information about CCAP oversight and administration, funding, and participation in the program. In the next section, we discuss the results of this special review.

CONCLUSIONS

The Department of Human Services' (DHS) program integrity controls are insufficient to effectively prevent, detect, and investigate fraud in Minnesota's Child Care Assistance Program (CCAP). Both DHS and local human services agencies must do more to develop, coordinate, and implement policies, processes, and resources to identify and respond to the risk of fraud in CCAP.

FINDINGS

Finding 1. DHS and county agencies did not sufficiently leverage independent, external data sources to verify recipient eligibility for CCAP.

Finding 2. DHS had weak processes to validate that CCAP provider billings aligned with actual child care provided.

Finding 3. Among other functions, MEC² was developed to accurately process provider billings and payments; however, MEC² lacked some key controls to identify errors and to inhibit, track, and recover improper payments.

Finding 4. DHS did not implement sufficient program integrity controls for licensing child care providers.

Finding 5. DHS did not adequately identify and analyze the risk of fraud in CCAP and had weak processes to coordinate investigations statewide.

BACKGROUND AND CONTEXT

CHILD CARE ASSISTANCE PROGRAM

Minnesota's Child Care Assistance Program (CCAP) provides monetary support for child care services for low-income families so they can work or participate in education and training and achieve independence from public assistance.³ The program also seeks to improve the quality and availability of child care for all families through training for providers and increasing certain types of care.⁴ In Fiscal Year 2018, CCAP expenditures totaled about \$283 million to administer the program and to pay child care providers for services to more than 30,000 children.⁵

CCAP is authorized through federal law and supported through block grants from the federal Child Care and Development Fund (CCDF).⁶ Among its goals and purpose, the CCDF seeks to protect the health and safety of children in child care and improve the overall quality of early learning and afterschool programs.⁷ Minnesota families and children who meet CCAP eligibility criteria may qualify for child care assistance through either the Minnesota Family Investment Program (MFIP) or Basic Sliding Fee program.⁸ Eligible individuals are authorized for a 12-month period of child care to reduce service disruptions due to changes in a family's circumstances and recurring eligibility reviews.⁹ Exhibit 1.1 outlines the legal requirements for participating in CCAP.

For CCAP child care services, families may select any legal child care provider they prefer.¹⁰ Minnesota allows for several classes of child care licenses for providers to choose the type of care they wish to offer.¹¹ Generally, each class imposes restrictions

³ 45 *CFR* 98.1(a) (2018).

⁴ 45 *CFR* 98.1(b) (2018).

⁵ Total expenditures includes spending on child care development, child care reform services, and related services.

⁶ Child Care and Development Block Grant Act of 2014, Public Law 113-186, November 19, 2014. 45 *CFR* 98 (2018).

⁷ 45 *CFR* 98.1 (2018).

⁸ CCDF is not an entitlement program, which means that states are not required to serve all eligible CCDF applicants. When a state does not have sufficient funds to serve all eligible applicants, they may place them on wait lists; however, these individuals could still apply for and receive child care assistance through other federal or state programs, such as Temporary Assistance for Needy Families. MFIP provides child care assistance for the first 12 months after a family leaves MFIP cash assistance. Basic Sliding Fee provides a child care subsidy to low-income working families who are not receiving cash assistance from MFIP.

⁹ 45 *CFR* 98.21 (2018). A child's CCAP eligibility during this period may change under limited circumstances.

¹⁰ *Minnesota Statutes* 2018, 119B.09, subd. 5. A county may deny CCAP subsidies if it considers the provider or child care arrangement unsafe.

¹¹ Minnesota Department of Human Services, *Regulatory Infrastructure of Licensed Child Care*, February 1, 2017, 9-10. In Fiscal Year 2018, the types of providers included: licensed center, licensed family, license-exempt center, and legal nonlicensed.

Exhibit 1.1: Child Care Assistance Program Eligibility Requirements, 2018

Child must:

- Be less than 13 years of age (less than 15 years of age if has special needs).
- Reside with a parent/family who meets income, asset, and participation requirements.

Parents must:

- Participate in approved employment, educational, or job search activity.
- Cooperate with county child support enforcement activities at application and redetermination.
- Have household income less than or equal to 47 percent of the state median income (SMI) at application, adjusted for family size (for example, SMI was \$31,939 for a two-person household in 2019. MFIP families may be eligible with income up to 67 percent of SMI).
- Have household income less than or equal to 67 percent of SMI, adjusted for family size, at 12-month redetermination.
- Have total assets that are less than \$1 million.^a
- Have children who meet citizenship and immigration status requirements or attend care in a setting subject to public educational standards.
- Pay the required family copayment.
- Provide the required verification of meeting eligibility requirements.
- Use an authorized child care provider.

^a Effective October 1, 2018.

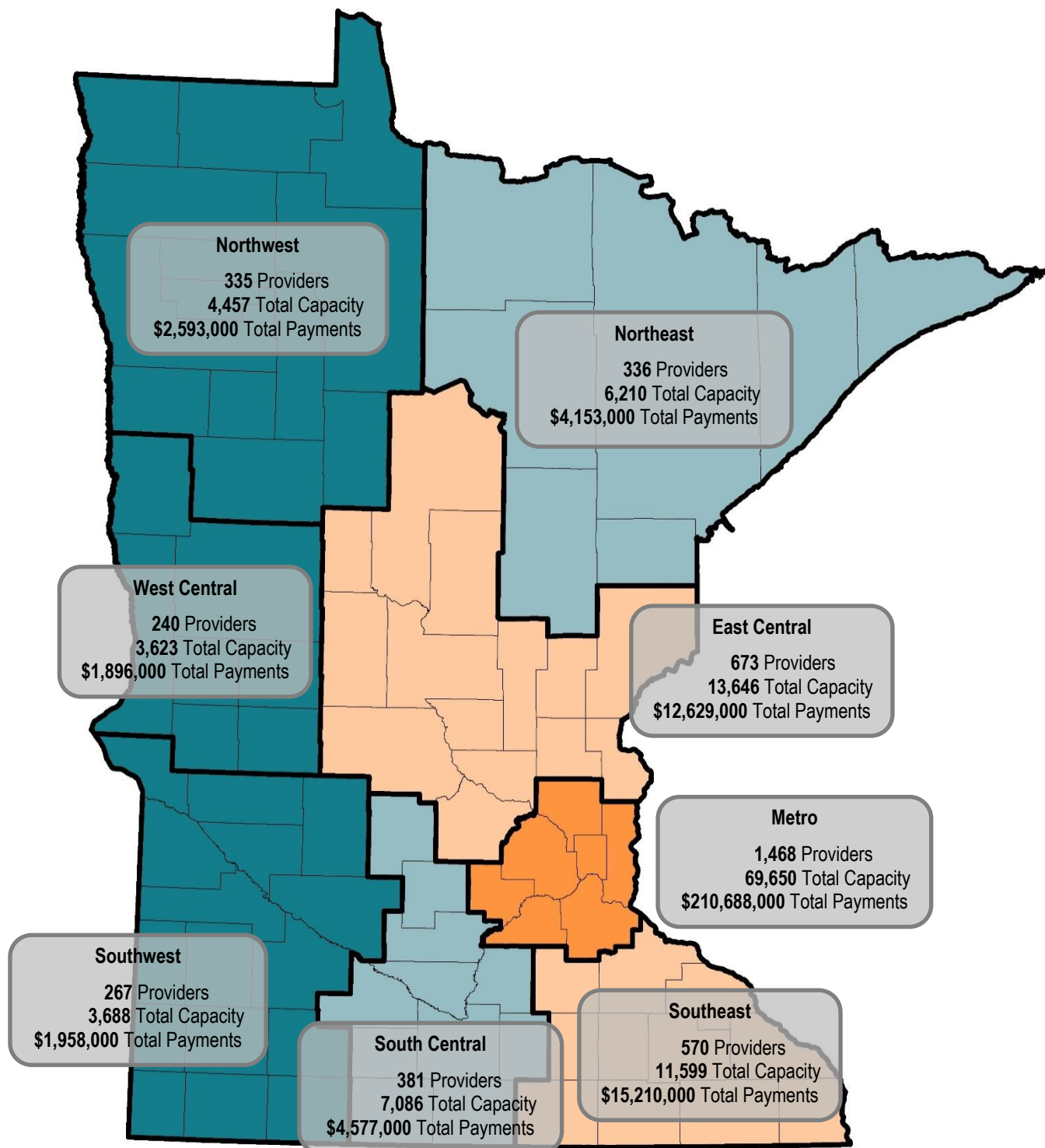
SOURCE: 45 *CFR* 98.20 (2018); and *Minnesota Statutes* 2018, 119B.09, subds. 1-2 and 5; and 119B.10.

on child-to-adult ratios, maximum capacity, and ages of the children under care. In Fiscal Year 2018, there were 4,549 child care providers statewide who received at least some CCAP payments, shown in Exhibit 1.2.¹² DHS approved these providers to serve—in total—up to 120,000 children (including children not enrolled in CCAP). Total CCAP payments to these providers was about \$254 million.

DHS must submit to the U.S. Department of Health and Human Services (DHHS) for its approval a three-year plan that describes how the department implements child care programs funded by CCDF. The plan must outline processes and actions to ensure services are delivered by qualified providers to eligible participants, in accordance with federal law. Federal law allows states considerable flexibility to design their child care programs, but requires states to describe for DHHS effective internal controls and processes to ensure program integrity and identify and respond to risks of fraud.¹³

¹² Based on data provided by the department, total DHS child care providers approved and licensed by DHS and counties for Fiscal Year 2018 was about 12,700; total approved child capacity for all providers was about 229,000.

¹³ 45 *CFR* 98.1(a)(1); and 98.68 (2018).

Exhibit 1.2: Child Care Assistance Program Providers, Capacity, and Expenditures, by Region, Fiscal Year 2018

SOURCE: Office of the Legislative Auditor analysis of Department of Human Services' child care program data. Region totals represent point-in-time unduplicated counts of providers, statewide. Some providers who provided child care in more than one region are only counted once.

RISK OF IMPROPER PAYMENTS

For several reasons, CCAP is a program with a higher risk of errors, improper payments, and fraud.¹⁴ In addition to significant federal subsidies for the program, the administration of CCAP involves screening applicants based on eligibility criteria, complex processing of information to license child care providers, and a high volume of billing and payment activities—all factors that can affect program integrity.¹⁵

In CCAP, improper payments may occur due to errors, such as when a recipient or caseworker unintentionally calculates recipient income or copayments incorrectly. In contrast, CCAP fraud is a criminal act that involves family members or providers—or both working together—who knowingly or willfully commit actions with the intent to wrongfully obtain assistance to which they are not entitled.¹⁶

In Minnesota’s CCAP and in child care programs in some other states, cases of fraud have involved, for example:

- Recipients who underreported income or who misrepresented employment activities or educational activities to qualify for the program.¹⁷
- Providers who falsified attendance records and intentionally billed for a child who did not receive services or for more hours than the child attended and received services.¹⁸

¹⁴ 45 *CFR* 98.65 (2018), requires an annual audit of CCDF programs in accordance with federal Single Audit requirements due to risk in these programs. DHHS also reviews each state’s review of eligibility determinations for programs funded by CCDF. In Minnesota’s 2015 review of CCAP eligibility determinations, DHS found and reported to DHHS that 14.1 percent of eligibility cases tested had an error; some included improper payments. 45 *CFR* 98.100(d) (2018), states that improper payment: “(1) means any payment of CCDF grant funds that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under...legally applicable requirements governing the administration of CCDF grant funds; and (2) includes any payment of CCDF grant funds to an ineligible recipient, any payment of CCDF grant funds for an ineligible service, any duplicate payment of CCDF grant funds and payments of CCDF grant funds for services not received.”

¹⁵ 2 *CFR* 200.519 (2018); and American Institute of Certified Professional Accountants (AICPA), *Audit Guide: Government Auditing Standards and Single Audit* (Durham, NC: AICPA, 2017), 284.

¹⁶ *Minnesota Statutes* 2018, 256.98, subd. 1, states that a person who “obtains or attempts to obtain, or aids or abets any person to obtain by means of a willfully false statement or representation, by intentional concealment of any material fact, or by impersonation or other fraudulent device...child care assistance...to which the person is not entitled...or...obtains or attempts to obtain, alone or in collusion with others, the receipt of payments to which the individual is not entitled as a provider of subsidized child care, or by furnishing or concurring in a willfully false claim for child care assistance” is guilty of theft. See also Minnesota Department of Human Services (DHS), *Child Care Assistance Program Policy Manual*, “Policy 14.12: Fraudulently Obtaining Child Care Assistance,” issued December 2015.

¹⁷ See, for example, the case *State of Minnesota v. Yasmin Abdulle Ali, et al.* (Ramsey County 2014), summarized in the report Office of the Legislative Auditor (OLA), Special Review, *Child Care Assistance Program: Assessment of Fraud Allegations*, Appendix A (March 13, 2019), 7-8.

¹⁸ See, for example, the case *United States v. Fozia Sheik Ali* (2017), summarized in the companion report OLA, Special Review, *Child Care Assistance Program: Assessment of Fraud Allegations*, Appendix A, 1.

These scenarios illustrate that state processes and internal controls to prevent and detect fraudulent activities are needed to safeguard public program financial resources. For CCAP, DHS and local human services agencies each have program integrity roles and responsibilities.

OVERSIGHT AND PROGRAM INTEGRITY

In Minnesota, DHS oversees all child care services and the licensure of child care providers, including those who do not receive public program subsidies. DHS integrates CCAP goals, objectives, and legal requirements into its overall operations for all child care services. In general, CCAP is a state-supervised, county-administered program, although certain functions are partially or wholly delegated to county agencies and tribal nations. Under this organizational model, DHS must oversee program integrity across the state and enforce accountability to ensure individuals and entities perform their responsibilities.¹⁹

As required by federal CCDF law, DHS must have processes to: (1) ensure sound fiscal management; (2) identify areas of risk; and (3) train child care providers and DHS and local agency staff about program requirements and integrity.²⁰ DHS also must perform regular evaluations of its internal control activities.

DHS implements internal controls through policies, training, and reporting requirements for its own staff and for local human services agencies. The department also conducts quality assurance reviews of local human services agencies' work and sets corrective action plans as needed. To help administer the program, DHS and local human services agencies use a centralized information system—Minnesota Electronic Child Care (MEC²). Among its functions, MEC² has automated processes to help determine child eligibility, authorize child care hours, determine recipient copayment amounts, and pay CCAP providers.

Exhibit 1.3 describes key DHS and local human services agency roles and responsibilities for CCAP. These entities set child care policy, determine eligibility of children, authorize parent activities, license and monitor child care providers, process payments, and investigate fraud. DHS integrates internal controls into these functional areas.

¹⁹ *Minnesota Statutes* 2018, 119B.02, subds. 3 and 5; and 256B.983.

²⁰ 45 *CFR* 98.68 (2018).

Exhibit 1.3: Child Care Assistance Program, Key Roles and Responsibilities, 2018

Administrator	Activity
Department of Human Services	
Child Care Services Division	<ul style="list-style-type: none"> • Develop and draft policy, bulletins, guidance • Provide technical assistance and training to local human services agency staff • Collaborate with MNIT staff on new MEC² functionality and enhancements • Review and approve local human services agencies' CCAP policies outlined in County and Tribal Child Care Fund Plans • Offer guidance to providers via the provider phone line • Convene and facilitate Fraud Stakeholder Meetings
Office of Inspector General: Licensing Division	<ul style="list-style-type: none"> • Process child care provider applications for child care centers • Oversee child care center providers' compliance with background study laws • Monitor and inspect child care centers for compliance with legal requirements • Investigate allegations of noncompliance and suspected child maltreatment at child care centers • Ensure programs meet minimum health, safety, and training requirements • Issue citations, fines, suspensions, revocations, and conditional licenses for licensed child care centers • Provide technical assistance and training to applicants and licensed providers • Evaluate county licensing unit recommendations for licensing actions and issue fines, suspensions, revocations, and conditional licenses for family child care providers
Office of Inspector General: Financial Fraud and Abuse Investigative Division	<ul style="list-style-type: none"> • Investigate CCAP provider fraud and also recipient fraud at request of local human services agency • Coordinate, refer to, and assist federal, state, and local law enforcement agencies • Review licensed child care provider attendance records and coordinate with local human services agencies to assess overpayments • Establish Intentional Program Violations for child care providers • Participate in Fraud Stakeholder Meetings • Provide feedback to DHS partners regarding program internal controls and their impact in reducing fraud, waste, and abuse • Provide testimony in criminal trials and administrative hearings
Program Compliance and Audit	<ul style="list-style-type: none"> • Conduct quality assurance case reviews of local agency eligibility determinations • Communicate with local agency staff and administrators on results of case reviews
Counties and Tribes	<ul style="list-style-type: none"> • Process applications from recipients and family child care and legal nonlicensed providers who receive CCAP payments; conduct background studies • Monitor licensed child care homes and conduct inspections for compliance with health, safety, and training requirements • Investigate complaints and ensure compliance with health, safety, and training requirements • Provide technical assistance to licensed family child care providers • Investigate recipient and family child care provider fraud issues; coordinate investigations with DHS OIG • Establish Intentional Program Violations for recipients and providers • Participate in Fraud Stakeholder Meetings

SOURCE: Department of Human Services.

Minnesota Department of Human Services (DHS) Roles and Responsibilities

DHS must coordinate the planning and delivery of child care programs statewide to ensure that they meet federal and state health, safety, and licensing standards.²¹ Various DHS divisions carry out program and internal control functions for CCAP.

Child Care Services Division

The Child Care Services Division within DHS provides general program oversight, develops CCAP policy and strategies, provides training and technical assistance to local human services agency staff, works with DHS Minnesota IT Services (MNIT) staff to oversee MEC², among other activities. Division management also coordinate program integrity efforts with other DHS divisions, including the Program Compliance and Audit/Internal Audit divisions and the DHS Office of Inspector General.

Office of Inspector General—Licensing Division

The DHS Licensing Division oversees the licensure of all child care providers, but delegates some oversight of family child care and other provider types to local human services agencies.²² DHS licensors process provider applications and must monitor and periodically inspect new and existing licensed centers for compliance with legal requirements. For example, DHS must ensure that criminal background studies are completed for child care providers and any employees who may come into contact with children.²³ DHS also has delegated to local agencies the responsibility for monitoring compliance with background study requirements by other child care providers—licensed family and legal nonlicensed providers—who receive CCAP.

During annual on-site visits, DHS and county licensors must identify any failure to meet health and safety requirements or to provide meals to children or, generally, whether a center provides grossly substandard care. Licensors issue correction orders in the case of serious or chronic violations and, if appropriate, recommend fines, conditional licenses, or other actions. Staff also investigate allegations of noncompliance and maltreatment of children in child care settings.

DHS also conducts quality assurance reviews of each local human services agency once every four years. These reviews examine local human services agencies' licensing activities, health and safety inspections, and compliance with training requirements.

²¹ 45 *CFR* 98.1 (2018); and *Minnesota Statutes* 2018, 119B.02.

²² *Minnesota Statutes* 2018, 245A.16.

²³ 45 *CFR* 98.43 (2018).

Office of Inspector General—Financial Fraud and Abuse Investigative Division

According to federal regulations, DHS must have processes to investigate and recover fraudulent payments and to impose sanctions on families and providers who participate in CCAP fraud.²⁴ These processes may include reviews of attendance and billing records, a comparison of records among databases, staff training on monitoring and audit processes, and other quality assurance activities.²⁵

DHS has both oversight and operational responsibilities for the detection and investigation of fraud in CCAP.²⁶ The DHS Office of Inspector General (OIG)—through its Financial Fraud and Abuse Investigative Division—oversees and carries out many fraud investigation functions and is expected to provide feedback to other DHS divisions regarding CCAP program internal controls and their impact in reducing fraud, waste, and abuse.²⁷ This OIG division coordinates and assists federal, state, and local law enforcement agencies with CCAP fraud investigations, and may investigate cases upon referral by county agencies. OIG also contracts with the Department of Public Safety’s Bureau of Criminal Apprehension (BCA) for BCA investigators to assist with investigations of criminal improper payments in child care and other public programs.

Some functions—such as fraud investigations of recipients—are partially or wholly delegated to local agencies, as shown in Exhibit 1.3. For DHS and counties, state statutes define their authority for investigating improper payments and the sanctions they may impose; for example, when DHS may disqualify an individual from CCAP.²⁸

Program Compliance and Audit

The DHS Program Compliance and Audit Unit (PC&A) conducts quality assurance case reviews to ensure the local human services agencies are determining CCAP eligibility and subsidy authorization amounts correctly. If PC&A staff find errors, they send error notices to the local human services agency and DHS Program Policy staff, who then work with the counties to develop a corrective action plan, clarify policy if needed, and develop county training on the issue.

²⁴ 45 *CFR* 98.68(b) (2018); and *Minnesota Statutes* 2018, 119B.02, subd. 5.

²⁵ 45 *CFR* 98.68(b) (2018);

²⁶ *Minnesota Statutes* 2018, 119B.02, subds. 3 and 5; 245E; and 256.983. Under federal law, DHS has broad authority to administer the program through other governmental agencies, however, the department must oversee the expenditure of funds by subgrantees and monitor programs and services. See 45 *CFR* 98.11 (2018).

²⁷ *Minnesota Statutes* 2018, 245E.

²⁸ *Minnesota Statutes* 2018, 119B.16, 245E, and 256.

Local Human Services Agency Roles and Responsibilities

As required by federal law, DHS has policies and processes to document and verify that children receiving assistance meet eligibility criteria at the time of eligibility determinations.²⁹ County and tribe human services agencies process CCAP applications and determine eligibility and approve hours of child care, based on the family's authorized employment, job search, or education activities.

Local human services agency staff also process applications from family child care providers and conduct on-site visits to determine their compliance with health and safety and legal requirements. Local staff process and approve payments for all providers and have a role in fraud detection and recovering improper payments due to error or fraud. We discuss DHS oversight of fraud later in this report.

FUNDING

CCAP is funded through a mix of federal CCDF, state, and county funds. Some families are required to pay for a portion of their child care. In Fiscal Year 2018, CCAP expenditures totaled about \$283 million: federal funding totaled \$134 million, state funding totaled \$146 million, and county funding totaled about \$3 million. As shown in Exhibit 1.4, about \$254 million was for payments to 4,549 child care providers. The remaining \$28.8 million was for administration and other costs. For CCAP, the Legislature determines the maximum rates that DHS can pay providers for child care.³⁰

Exhibit 1.4: Total CCAP Expenditures, by Type, Fiscal Year 2018

Expenditure Type	Number of Entities	Amount
Provider payments		
Licensed center	1,042	\$224,348,106
Licensed family	2,328	18,935,336
License exempt center	673	8,725,774
Legal nonlicensed	380	1,471,698
Other provider type	59	292,596
Total provider payments	4,549	\$254,286,515
Administration/Other ^a		\$ 28,758,212
Total CCAP		\$283,044,727

NOTE: "Other provider type" includes centers or family care licensed by another state or tribe.

^a Includes CCDF expenditure for administration, child care development and child care reform services, and grants.

SOURCE: Department of Human Services.

²⁹ 45 CFR 98.68(c) (2018).

³⁰ *Minnesota Statutes* 2018, 119B.13, subds. 1-4. Generally, the maximum CCAP payment rates for providers vary according to the age of the child, unit of time, quality rating, and geographic location of the provider.

PROGRAM INTEGRITY FINDINGS AND RECOMMENDATIONS

For agencies administering federal programs, the U.S. Government Accountability Office lays out a framework to combat fraud using a strategic, risk-based approach.³¹ A strong system of internal controls begins with management's philosophy and approach to operations. It also includes processes to continuously assess risks of improper payments and implement control activities to monitor and mitigate those risks.

For our work, we conducted a limited scope special review of DHS's controls within four CCAP program functions administered by DHS or partially or wholly delegated to local human services agencies. These four areas included recipient eligibility, child care licensing, processing provider payments, and fraud investigations. The following sections discuss the results of our work, including deficiencies in DHS's policies and processes to validate information, identify and inhibit improper payments, and manage the risk of fraud in CCAP.

VALIDATE REPORTED INFORMATION

Use of Independent Data Sources to Determine Eligibility

FINDING 1

DHS and county agencies did not sufficiently leverage independent, external data sources to verify recipient eligibility for CCAP.

As we discussed previously, agencies have investigated and found fraud and other improper payments in public child care programs. Some of these improper payments involved individuals who were not actually eligible for CCAP and the services received from child care providers.³²

For child care program integrity, federal law and guidance suggests states use independent data sources to verify information and compare records among databases.³³ Independent verification using reliable, external resources that are free

³¹ U.S. Government Accountability Office (GAO), *A Framework for Managing Fraud Risks in Federal Programs*, July 2015.

³² Minnesota Department of Human Services, *Annual Report 2017 Office of the Inspector General*, 18. As part of annual federal Single Audit work, OLA also has found errors in CCAP eligibility determinations. See Office of the Legislative Auditor, *Federal Compliance Audit Year Ended June 30, 2015* (St. Paul, March 2016), 9-10.

³³ 45 *CFR* 98.68(b)(1)(i) (2018); and GAO, *A Framework for Managing Fraud Risks in Federal Programs*, 23 and 38-40.

from error and bias may improve the accuracy of eligibility decisions.³⁴ For CCAP, it is also a preventive control against collusion between recipients and providers to inappropriately obtain CCAP payments.

In Minnesota, local human services agencies are responsible for determining and verifying the eligibility of children and families for CCAP services; these entities also must perform annual redeterminations of participants' eligibility.³⁵ Generally, this process requires CCAP staff to obtain information and verify (1) whether children and families meet criteria to be eligible for the required minimum 12-month period; (2) the family's employment status or educational or job-seeking activities; and (3) the authority of the selected provider to deliver child care under CCAP. At the time of our review, we observed several deficiencies in controls over CCAP eligibility processes.

Verify Reported Income Against Independent Sources

Minnesota statutes and rules require applicants to submit documentation to support their eligibility and to report any changes in circumstances, but they do not prescribe verification processes that local agency workers must follow to validate all eligibility information against independent sources.³⁶ DHS has policies for local agencies to determine and verify eligibility, but these processes rely considerably on information and documents—such as pay stubs and copies of birth certificates—submitted by applicants and not directly from independent sources.³⁷

The state's manual process to determine eligibility is time- and resource-intensive and does not make effective use of automated information systems. For example, DHS policy states that "all income must be verified using the documentation that is the best

³⁴ GAO, *A Framework for Managing Fraud Risks in Federal Programs*, 23 and 38-40; and U.S. Government Accountability Office (GAO), *Standards for Internal Controls in the Federal Government*, September 2014, 59-60.

³⁵ *Minnesota Statutes* 2018, 119B.025.

³⁶ *Minnesota Statutes* 2018, 119B.025, subd. 4; and 256P.07. *Minnesota Statutes* 2018, 119B.09, subd. 4(c), requires that income must be verified with documentary evidence. If the applicant does not have sufficient evidence of income, verification must be obtained from the source of the income. *Minnesota Rules*, 3400.0040, subp. 3(A), published electronically October 29, 2008, requires that an applicant must document information specific to eligibility criteria. *Minnesota Rules*, 3400.0170, subp. 1, published electronically October 9, 2017, states that income must be verified with documentary evidence. If the applicant does not have sufficient evidence of income, the...agency must offer the applicant the opportunity to sign an informational release to permit the...agency to verify whether the applicant qualifies for child care assistance.

³⁷ Minnesota Department of Human Services (DHS), *Child Care Assistance Program Policy Manual*, "Policy 7: Verification," and "Policy 7.9: Income Verification," issued October 2017. We note that DHS updated Policy 7.9 and other related policies subsequent to when we completed our audit fieldwork.

indicator of future income.”³⁸ As shown in Exhibit 1.5, DHS policy in place at the time of our review suggested—but did not require—that local human services agency staff use independent data systems to verify some limited information, such as social security disability income through the State Verification and Exchange System.³⁹

Exhibit 1.5: Eligibility Verification for the Child Care Assistance Program

Counties must:	Examples of Verification Resources
Verify the following for child care assistance:	
At all initial applications:	
Identity of adults in the household	State identification cards, passports
Presence of minor child in the home	Applicant statement
Relationship of minor child to the parent/caretaker	Birth certificates, applicant statement
Age of child	Birth certificates, applicant statement, school status/class schedule
Immigration status ^a	DHS MAXIS information system; Federal I-94 immigration form
Counted income	Paycheck stubs, applicant-reported employer statement, Equifax Work Number (if employer participates), DHS MAXIS information system (if applicant enrolled in other public programs), State Verification Exchange System (for Social Security income), Department of Employment and Economic Development (for unemployment income)
	For self-employment, applicant statement or tax statement (if available) or client statement
Child support	DHS PRISM information system
Residence	Any form of mail; lease; applicant statement
Inconsistent information ^a	Discretion of case worker to follow up on missing information
Request Social Security number at initial application ^b	Social Security Administration information system
If eligibility approved:	
Employment/education status of parent/caregiver	School class/employment schedules

^a If related to eligibility.

^b DHS may not deny eligibility solely on failure to provide Social Security number.

SOURCE: *Minnesota Statutes* 2018, 119B.025, subds. 1-3; and Department of Human Services, *Child Care Assistance Program Policy Manual*, Chapter 7.

³⁸ DHS, *Child Care Assistance Program Policy Manual*, “Policy 7.9: Income Verification,” issued October 2017. In its policy manual, DHS directed that CCAP workers may not request verification of income changes during a family’s 12-month eligibility period unless the family reports that their income is over 85 percent of the state median income. DHS set this policy in response to 45 *CFR* 98.21(a)(1)(i) (2018), which states: “[DHS] shall re-determine a child’s eligibility for child care services no sooner than 12 months following the initial determination or most recent redetermination, subject to the following: (1) During the period of time between determinations or redeterminations, if the child met all of the requirements...on the date of the most recent eligibility determination or redetermination, the child shall be considered eligible and will receive services at least at the same level, regardless of: (i) A change in family income, if that family income does not exceed 85 percent of SMI for a family of the same size....”

³⁹ DHS, *Child Care Assistance Program Policy Manual*, “Policy 7.24: Verification – DHS Systems,” issued July 2017.

For the period of our review, DHS policy did not require independent verification of all types of income to independent data sources. Unlike some other public programs—such as MinnesotaCare—federal tax data is not a required resource to independently verify participants’ reported income and wages. According to DHS staff, each county has at least one designated staff person who has access to unemployment compensation data from the Department of Employment and Economic Development to verify eligibility if they choose to do so.

Improve Documentation Standards

For CCAP, local human services agency staff rely on participants’ documentation in order to authorize eligibility and, if eligibility is approved, the amount of child care needed and payments that are based on a parent’s approved activities and scheduled hours. But, in our view, such documentation can be insufficient to validate the accuracy of the information.⁴⁰ Minnesota rules and DHS policy do not require participants to submit original or certified paperwork from independent sources to help document that they currently meet eligibility criteria; rather, staff can rely on copies.⁴¹ In some situations, federal and state statutes restrict a case worker’s ability to obtain documentation, for example, DHS may not deny benefits based solely on the applicant’s failure to provide their social security number.⁴²

If CCAP participants do submit inconsistent information related to eligibility, county staff may request further documentation, such as pay stubs or employer statements.⁴³ However, if some applicants report they are unable to obtain such documentation, DHS policy permits the applicant to prepare and submit a written statement to address the requirement.⁴⁴

Implement Asset Verification Requirements

With approval from the federal government, DHS delayed implementing a 2016 federal eligibility requirement that recipients must certify they do not have assets in excess of

⁴⁰ In our review of a sample of cases, we found examples in which county staff relied on documents prepared by the recipients, and there was no evidence that the information was independently verified to prevent improper payments. County staff underreported the family’s income in two of five cases that we reviewed. We also found within some sample case files inconsistent information from program participants that could have affected eligibility, but there was no evidence in the file that the county workers followed up on the discrepancies.

⁴¹ *Minnesota Rules*, 3400.0040, subp. 3, published electronically October 29, 2008; and DHS, *Child Care Assistance Program Policy Manual*, Chapter 7.

⁴² 5 *U.S. Code*, sec. 552a (2010); and *Minnesota Statutes* 2018, 119B.025, subd. 2.

⁴³ *Minnesota Statutes* 2018, 119B.025; and DHS, *Child Care Assistance Program Policy Manual* “Policy 7.3: Verification – Initial Application,” issued December 2017.

⁴⁴ DHS, *Child Care Assistance Program Policy Manual*, “Policy 7: Verification,” issued October 2017, which also stated that a county worker may get a signed statement from the family attesting to the correctness of the self-employment income, certain child support income, and the date a last paycheck was received.

\$1 million.⁴⁵ Children may not reside with a family whose assets exceed this federal threshold and the family may not enroll their children in CCAP. The DHS CCAP application and related policies did not address this reporting requirement or establish asset verification procedures until October 2018.

Enhance Quality Assurance Case Reviews

DHS must oversee and monitor functions that are delegated to local human services agencies.⁴⁶ As part of program integrity activities, staff from DHS's Program Compliance and Audit Division perform federally required case reviews each month to assess whether local human services agency staff determine recipient eligibility correctly, based on data available to them, and to detect errors by workers. The purpose of these reviews is to determine for DHHS an improper payment error rate for programs funded by the federal CCDF.⁴⁷ To conduct these reviews, DHS follows guidance by the federal Office of Child Care for programs funded by CCDF. For example, federal guidance requires that each state select 276 cases—23 cases for each of the 12 months in the review period.⁴⁸

While the improper payment case reviews meet the federal DHHS objective for determining improper payment rates and a national payment error rate, we think that the reviews are too limited for quality assurance purposes in that they do not assess whether the state or case workers could have used additional, independent data sources to determine eligibility. We also note that, although the federal government sets the sample sizes for this process, we think that the number of cases reviewed is too small and insufficient to fully assess program integrity for a program of this size. In fact, some counties may only have one case audited per year.

RECOMMENDATIONS

The Legislature should direct the Department of Human Services and local human services agencies to expand their use of independent data sources to determine eligibility for the Child Care Assistance Program.

DHS should expand its quality assurance reviews of local human services agencies' CCAP eligibility determinations.

⁴⁵ 45 *CFR* 98.20(a)(2)(ii) (2018). DHS received a federal waiver from DHHS to delay implementing this asset requirement until October 2018. DHS, *Child Care Assistance Program Policy Manual*, "Policy 4.12: Asset Limit," issued October 2018, describes these asset requirements.

⁴⁶ 45 *CFR* 98.11 (2018); and *Minnesota Statutes* 2018, 256.01, subd. 2(a).

⁴⁷ U.S. Department of Health and Human Services, Administration for Children & Families, Office of Child Care, "Child Care Improper Payments Data Collection Instructions," October 31, 2018, 1-2.

⁴⁸ U.S. Department of Health and Human Services, Administration for Children & Families, Office of Child Care, "Child Care Improper Payments Data Collection Instructions," October 31, 2018, 9-10.

CCAP has complex processes to screen applicants against eligibility criteria, and the program relies significantly on documentation from participants for this purpose—all factors that allow for errors and fraud. We think that greater use of quality information from independent, external data sources is needed to verify eligibility, recipient income, and whether employers have actually employed the recipients.⁴⁹ Weak documentation standards and the use of inaccurate data by DHS and counties will result in improper payments and affect family copayment amounts for CCAP.

Verify Provider Billings and Authorized Services

FINDING 2

DHS had weak processes to validate that CCAP provider billings aligned with actual child care provided.

Improper payments—including fraud—in CCAP have included scenarios in which a provider falsified attendance records and overbilled for services that they did not provide.⁵⁰ To avoid a costly and inefficient practice of pay-and-chase providers for overbilling, management should have procedural checks—either automated or manual—to help ensure submitted child care data meet program requirements before payments are made.⁵¹

For CCAP, each recipient's authorized child care service levels vary according to the parent's employment or education schedules or job search activities. After providing child care services, providers submit their billings either electronically or via paper versions to local human services agencies; agency staff then review and approve these CCAP billings through DHS's Minnesota Electronic Child Care (MEC²) system.⁵²

DHS policies and payment processes lack consistent controls to validate that a child care provider correctly charged the program before a payment is issued. Modern

⁴⁹ GAO, *A Framework for Managing Fraud Risks in Federal Programs*, 23 and 38-40.

⁵⁰ A provider can be paid for days that a child did not attend child care. *Minnesota Statutes* 2018, 119B.13, subd. 7, lays out these scenarios, for example, licensed child care providers and license-exempt centers must not be reimbursed for more than 25 full-day absent days per child, excluding holidays, in a fiscal year, or for more than ten consecutive full-day absent days. Legal nonlicensed family child care providers must not be paid for absent days. Also, only days in which a child is absent for the entire time authorized count against the child's 25 absent days per calendar year limits. If a child attends child care for any part of a day, but is absent for part of the day, the full amount of care authorized for that day will be paid and the payment will not count towards the 25 absent day limits.

⁵¹ GAO, *A Framework for Managing Fraud Risks in Federal Programs*, 40; and GAO, *Standards for Internal Controls in the Federal Government*, 48-49 and 53-54.

⁵² *Minnesota Rules*, 3400.0110, published electronically October 29, 2008. Providers have the option to submit billing information through either paper forms or electronically through MEC² Provider Resources Online (PRO), a billing system that interfaces with MEC² through a secure internet connection. However, not all CCAP agencies use MEC² PRO, and CCAP agencies that use MEC² PRO can choose which providers they want to enroll in electronic billing.

information systems can conduct data matching and verify data before processing transactions. However, MEC² was not developed to identify fraudulent provider billings, and the system depends on CCAP agency workers to enter accurate information in order to correctly process recipient eligibility, child care authorizations, and payment requests. (We discuss MEC² and its functionality in the next section.)

Based on our review of CCAP and interviews with stakeholders, we identified the following gaps in controls to validate provider billings. In our companion OLA report, *Child Care Assistance Program: Assessment of Fraud Allegations*, we discuss how these gaps in controls pose challenges in the prosecution of fraud cases.⁵³

Verify Child Care Provider Billings Against Child Attendance

DHS allows each local human services agency to develop its own quality assurance processes to audit and authorize providers' billings and address improper payments, and these processes vary among local human services agencies.⁵⁴ For example, DHS does not require that a parent certifies the provider's charges to CCAP unless the charges are submitted on a paper form and the local human services agency requires such signature.⁵⁵ Further, local agencies do not have an option to capture parent signatures for electronic billing. At the time of our review, DHS also did not have a mandatory manual or automated process to reconcile billings against records of actual child attendance kept by child care providers prior to payment.⁵⁶

Document Child Attendance

DHS does not use an electronic system—such as one that scans the fingerprint of a parent or child—to immediately log and verify when a child attends a particular child care center. Rather, each child care business must maintain records of attendance by children.⁵⁷ Most often, these records are hardcopy attendance sheets that the family member must sign and date to document the use of child care services.

During some inspections and investigations by DHS and local human services staff, child care providers have not immediately produced attendance records for DHS staff as required by law.⁵⁸ Sometimes, these records are incomplete or appear that, based on the

⁵³ OLA, Special Review, *Child Care Assistance Program: Assessment of Fraud Allegations*.

⁵⁴ Counties' quality assurance processes may include case management reviews of CCAP providers, random requests of provider attendance records, and reviews of provider records in response to tips or inconsistencies.

⁵⁵ According to DHS staff, the following 15 local human services agencies do not require parents to sign the provider paper billing form: Aitkin, Brown, Des Moines Valley, Grant, Hennepin, Lac Qui Parle, Morrison, Polk, Ramsey, Renville, Stearns, Stevens, South West Health and Human Services, Watonwan, and Wright.

⁵⁶ DHS, *Child Care Assistance Program Policy Manual*, "Policy 9.3: Payments to Providers," issued December 2017; and "Policy 11.15: Provider Recordkeeping," issued November 2015.

⁵⁷ *Minnesota Statutes* 2018, 119B.125, subd. 6.

⁵⁸ *Minnesota Statutes* 2018, 119B.125, subd. 6.

author's handwriting, one single individual signed the sheets as multiple, different parents. In contrast, a real-time electronic sign-in system provides an automated way to help verify actual attendance by children against provider billings and authorized care.⁵⁹

RECOMMENDATIONS

The Legislature should direct the Department of Human Services to implement real-time electronic reporting of child care attendance for CCAP.

DHS should enhance billing verification policies to reduce the risk of improper payments in CCAP.

To avoid a costly and inefficient practice of pay-and-chase providers for overbilling, DHS management should ensure submitted child care data meet program requirements before payments are made.⁶⁰ A significant amount of child care fraud is tied to child care businesses billing for services that they did not provide. In CCAP, there have been cases in which providers have not submitted accurate, complete, and timely records of child attendance.

We think a more reliable, real-time electronic system to record and report child care attendance to DHS and counties would help validate the accuracy of providers' billings.⁶¹ This process could also help document if there was possible collusion between providers and parents and hold participants accountable under administrative proceedings, prosecution of fraud, and the recovery of improper payments.

AUTOMATED PAYMENT PROCESSES

FINDING 3

Among other functions, MEC² was developed to accurately process provider billings and payments; however, MEC² lacked some key controls to identify errors and to inhibit, track, and recover improper payments.

For CCAP, DHS has delegated certain administrative functions—including service authorization and payment processing—to local human services agencies. These functions rely on DHS's centralized, automated system, MEC², to support and provide controls over the program. Information systems—such as MEC²—can be programmed

⁵⁹ A biometric system that scans fingerprints or faces would better demonstrate whether a child was actually present at child care.

⁶⁰ GAO, *A Framework for Managing Fraud Risks in Federal Programs*, 40; and GAO, *Standards for Internal Controls in the Federal Government*, 48-49.

⁶¹ GAO, *Standards for Internal Controls in the Federal Government*, 51-53.

to flag billing inconsistencies and errors, stop payment processes, and require further review and authorizations.⁶²

In Fiscal Year 2018, DHS used MEC² to pay about 4,500 child care providers about \$254 million for their services. DHS and MNIT have integrated many automated system processes into MEC² to improve the accuracy of agencies' review of provider billings and payments. For example, MEC² applies certain rules to help DHS and local agencies correctly calculate payments. MEC² also will not approve a provider's bills for services that were provided after the provider's authorization is closed in the system. MEC² also incorporates requirements imposed by Minnesota statutes and rules into its edits, and it interfaces with many other systems—such as the federal Social Security system—to ensure CCAP program integrity. However, MEC² has minimal functionality to identify fraudulent billing schemes. In the following sections, we discuss weaknesses in MEC² that could be addressed to detect and investigate fraud. For security purposes, we describe these deficiencies in general terms.

System Control Deficiencies

At the time of our review, we identified certain functions and controls that were not part of MEC² or consistently implemented through manual processes outside of the system.

Validate and Restrict Payments Under Certain Conditions

MEC² did not have functions to properly restrict payments for children who are authorized to receive services from multiple providers, a restriction imposed by law.⁶³ The system also lacked processes to identify late billings and billing inconsistencies, stop the payment process, and ensure the provider's billings are manually reviewed. However, some of these deficiencies are due to the flexibility granted to local human services agencies to create their own quality control processes.⁶⁴

Real-Time Updates to Prevent Unauthorized Payments to Closed Providers

When DHS closes a child care provider's registration for CCAP, there is no automated process in MEC² to immediately flag or stop all payments to the provider.⁶⁵ The actual

⁶² GAO, *A Framework for Managing Fraud Risks in Federal Programs*, 40; and GAO, *Standards for Internal Controls in the Federal Government*, 48-49 and 53-54.

⁶³ *Minnesota Statutes* 2018, 119B.097; and 119B.13, subd. 1(e). *Laws of Minnesota* 2017, First Special Session, chapter 6, art. 7, secs. 16 and 21. These requirements were effective April 23, 2018. MEC² also did not have edits to ensure that license-exempt child care centers who accept CCAP have complied with certification requirements.

⁶⁴ For example, *Minnesota Statutes* 2018, 119B.13, subd. 6(b), states that: "If a provider has received an authorization of care and been issued a billing form for an eligible family, the bill must be submitted within 60 days of the last date of service on the bill. A bill submitted more than 60 days after the last date of service must be paid if the county determines that the provider has shown good cause why the bill was not submitted within 60 days...." Each county may create its own definition of "good cause" and must describe this in its plan to DHS.

⁶⁵ According to DHS representatives, this scenario is problematic but it only occurs when DHS directs local human services agencies to close a provider's registration and stop payments based on a preponderance of the evidence that a provider intentionally submitted false bills. This situation occurs rarely and has not always resulted in providers continuing to be paid after DHS notifies the local agency to close registration.

closure of DHS's approval of a child care provider to receive CCAP occurs 15 days after the provider is notified of the pending action.⁶⁶ This 15-day period creates an opportunity for fraudulent billing. Lacking automated processes, DHS must manually notify all affected counties of the provider's status to watch for and stop outstanding payments—there are no system processes to address this scenario.

MEC² System Access and Submitter Authorization

DHS does not require that each child care provider designate an authorized individual(s) who submits bills for CCAP payments through MEC²PRO (the DHS system module for providers to submit billings). In a case of overpayments and recovery of improper charges, this type of MEC² system access control would help identify who is responsible for billings and hold individuals accountable for the records they submit to DHS.⁶⁷

Historical Indicators About Participants

MEC² does not compile or flag information in a way that helps staff identify transactions or individuals who may be a high risk for fraud. These individuals include: (1) recipients or providers who provided fictitious information in the past or failed to provide required and requested information; or (2) providers who received improper payments or have rejected, unpaid bills, including those child care providers who are or were registered in multiple counties. Similarly, MEC² does not contain any information about the results of background studies of providers or flag providers who received a maltreatment determination. Such information would help DHS and local human services agencies more easily identify and track potential improper billings.

System Overrides

MEC² contains many functions that inhibit processing of questionable eligibility, service authorizations, or billings; however, DHS internal control policies allow local agency staff to override an unreasonably high share—25 percent—of these built-in functions. For quality control, DHS generates a “CCAP Override Report” for each local agency that shows which cases have overrides applied to them, but the report does not give detailed information about the overrides, why they were necessary, or what actions the county agency must take based on the reviews. Instead, DHS only requires local agencies to report details about override information to program staff if the number of county cases with overrides exceeds 25 percent of all transactions.⁶⁸

⁶⁶ *Minnesota Rules*, 3400.0185, subp. 5, published electronically October 29, 2008.

⁶⁷ GAO, *Standards for Internal Controls in the Federal Government*, 55. In OLA's companion report, prosecutors we spoke with said that requiring each provider to designate an authorized biller with login credentials for MEC²PRO would make it easier for them to prosecute CCAP fraud cases. See OLA, Special Review, *Child Care Assistance Program: Assessment of Fraud Allegations*, 15-16.

⁶⁸ DHS, *Child Care Assistance Program Manual*, “Policy 16.24: Override Reporting,” issued April 2016. County managers must document their review of MEC² override reports and submit their findings to DHS on a quarterly basis. The county manager also self-selects one to three sample cases to review and report to DHS.

RECOMMENDATIONS

The Legislature should direct the Department of Human Services to improve CCAP controls within the Minnesota Eligibility Child Care (MEC²) system.

DHS should more closely scrutinize situations in which local human services agency staff override MEC² system controls.

DHS should improve MEC² to include real-time updates and historical indicators about providers and business owners, and to help staff identify late billings and billing inconsistencies. To help hold individuals accountable for improper payments, DHS also should enhance its controls over provider access and authorizations to submit billings to MEC² for payment. Lastly, DHS should provide greater oversight of MEC² system overrides. In many local human services agencies, the number of overrides by staff could be significant and the current controls could allow inappropriate overrides to go undetected.

OVERSIGHT OF LICENSED CHILD CARE BUSINESSES

FINDING 4

DHS did not implement sufficient program integrity controls for licensing child care providers.

Federal and state law requires child care services to be licensed, with exceptions for some types of child care providers.⁶⁹ Federal and Minnesota law and rules require that child care providers comply with health and safety and other quality assurance requirements for child care assistance programs.⁷⁰ Generally, quality assurance pertains to: educational programs; health and safety of the child care environment (such as infant-safe sleeping positions and staff-to-child ratios); minimum staff qualifications and training; standards for the building and equipment; and criminal background studies of owners, applicants, staff, and others.⁷¹

Federal and state law require DHS to have policies and processes to monitor and inspect child care providers and businesses that receive CCDF monies for their compliance with federal standards.⁷² For example, DHS licensors must conduct an

⁶⁹ 45 *CFR* 98.40-98.41 (2018); and *Minnesota Statutes* 2018, 245A.03. Child care providers who do not have to be licensed still must provide legal care to participate in CCAP.

⁷⁰ 45 *CFR* 98.40-98.41 (2018); *Minnesota Statutes* 2018, 119B.125, subds. 1(b) and 2; and 245A; and *Minnesota Rules*, chapters 9502 and 9503, published electronically 2018.

⁷¹ *Minnesota Statutes* 2018, 245A; and *Minnesota Rules*, chapters 9502 and 9503, published electronically 2018.

⁷² 45 *CFR* 98.42 (2018); and *Minnesota Statutes* 2018, 245A.

initial inspection of new providers that includes at least one on-site review of businesses physical premises and records and an observation of the program in operation, among other items.⁷³ While important for ensuring the health and safety of children, these quality assurance controls are not intentionally designed to identify improper payments—particularly fraudulent activity—by child care businesses. Identifying potentially fraudulent activities by child care centers and providers can be complex and may involve:

- Providers who falsify children attendance records to facilitate the processing of fraudulent billing.
- Providers and parents who work together to defraud the program, such as a provider who employs parents and pays them a kickback to enroll their child at the center.

In some cases, program practices by child care businesses may be indicators of both substandard care and fraudulent activities. For instance, a child care center that does not have the equipment or provide services required for children of a particular age may mean the child care business did not actually serve the children as billed for by the provider.

In Minnesota, DHS's Licensing Division—located within the department's Office of Inspector General—authorizes licenses for child care centers and monitors their compliance with health and safety requirements. Local human services agencies also perform certain licensing functions and monitor family child care providers, and they must report their activities to DHS.

For this audit, we did not evaluate the effectiveness of DHS quality assurance controls to preserve the health and safety of children. We sought to assess whether there were sufficient controls to address potential risk of fraud in CCAP. Ultimately, individuals seeking to defraud this program do not have the best interests of children in mind and are not meeting the intent of the program. We highlight the following concerns about DHS policies and processes for overseeing licensed providers for this purpose, and we sometimes note that language in Minnesota statutes is lacking, too.

Monitor Licensed Child Care Providers

Among other activities, DHS must inspect child care centers. In addition to the initial inspection described previously, DHS and counties also must conduct at least one unannounced inspection annually of licensed providers, although DHS in past years received a federal waiver from this requirement.⁷⁴

⁷³ *Minnesota Statutes* 2018, 245A.04, subd. 4.

⁷⁴ 45 *CFR* 98.42(b) (2018); and *Minnesota Statutes* 2018, 245A.04, subd. 4. In 2016, federal law required states to conduct annual inspections of licensed child care providers, but allowed states to seek a waiver to this requirement. Through September 2017, U.S. DHHS approved DHS to conduct routine site visits at least once every two years—rather than annually. DHS subsequently received a waiver from DHHS to delay the annual inspection requirement until October 1, 2018, as the department was still increasing its staffing complement.

In recent years, the DHS Licensing Division developed processes to increase oversight of child care centers that have significant violations or are identified as high risk for program integrity issues. This effort included hiring more licensors and dedicating staff to conduct more frequent monitoring of these high-risk providers. According to DHS administrators, over a recent five-year period, licensors have conducted an average of 3.75 on-site visits to 605 high-risk licensed providers.⁷⁵

We recognize these enhancements to the licensing division and also the federal waiver of annual inspection requirement, however, we note that DHS has not conducted unannounced site visits of all licensed CCAP providers in the past year.⁷⁶ Given the number of child care providers in Minnesota, we have concerns whether DHS licensors will be able to meet inspection requirements for CCAP and other child care providers under its caseload. Among 1,760 licensed child care centers in Fiscal Year 2018, DHS completed at least one unannounced inspection of 394 centers, 120 pre-licensing inspections, and 56 reinspections.⁷⁷ During the same time period, the number of DHS's licensors increased from 14 to 22. As of the release of this report, the division had 30 licensors.

The on-site reviews and their timeliness is an important program integrity control because child care provider employees can change over time and DHS must ensure criminal background studies of providers and others who may have contact with children to protect their safety.⁷⁸ Going forward, DHS and counties must conduct at least one unannounced inspection annually to ensure compliance with health, safety, and fire standards, and to ensure the well-being of children.⁷⁹ Noncompliance with this requirement means health and safety deficiencies, and potentially fraudulent activities, could go undetected.

⁷⁵ DHS representatives reported that the enhanced compliance monitoring team also conducted 127 maltreatment investigations at these high-risk centers, of which 45 investigations led to a finding of maltreatment. Additionally, the work of this team has resulted in 1,298 licensing actions, and 120 of the 605 licenses reviewed by the enhanced compliance monitoring team have either closed or been revoked.

⁷⁶ Prior to DHS adding additional licensors, previous OLA audits found that DHS did not fully comply with the waiver and inspection requirement. See, for example, Minnesota Management and Budget, *State of Minnesota, Financial and Compliance Report on Federally Assisted Programs for the Year Ended June 30, 2017* (Saint Paul, 2018), 43-44.

⁷⁷ The division also completed 749 investigations of licensed child care centers. Among 1,035 licensed centers receiving CCAP payments, DHS licensors conducted at least one unannounced site visit of 203 centers, 457 licensing investigations, and 105 maltreatment investigations in Fiscal Year 2018.

⁷⁸ 45 *CFR* 98.43 (2018).

⁷⁹ 45 *CFR* 98.42(b)(2)(i)(B) (2018); and *Minnesota Statutes* 2018, 245A.04, subd. 4(d). DHS may use a risk-based approach to design annual inspections, provided that the contents covered represent the full complement of health and safety requirements.

Verify Child Care Business Ownership and Operations

State statutes and DHS policy require applicants who seek a child care license to submit to DHS certain information about the individual(s) who own and operate the child care business, including their employees, but there are limitations to this information.⁸⁰

During the initial application and on-site review processes, licensors check the Minnesota Secretary of State's website to verify that the business is registered and to confirm the type of business structure. However, some individuals with whom we spoke suggested that these processes and state reporting requirements regarding the ownership and operations of child care businesses are insufficient and restricts DHS's ability to effectively detect and recover improper payments in CCAP.

Specifically, among licensed centers receiving CCAP funding, some ownership and business names change frequently and sometimes employees appear to lack legitimate child care experience. This lack of more information about owners makes it challenging for both licensors and investigators to tie prior licensing compliance or fraud issues from an earlier business to a current business owned and run by the same individuals.

We also heard suggestions that more detailed information is needed to determine if some centers are a qualified business and to affirm the legitimacy of child care operations; this information could be collected through periodic verification of ownership, employees, payroll taxes paid, and other business expenses related to child care. Such information also could better confirm a business's capacity to handle additional children when its owner seeks authorization to take in a high number of children or provide care during late night hours, for example.

RECOMMENDATIONS

The Legislature should direct the Department of Human Services to improve its review and monitoring of licensed child care providers.

DHS should comply with federal and state requirements to conduct annual inspections of child care providers.

In our companion report, *Child Care Assistance Program: Assessment of Fraud Allegations*, we discuss how CCAP fraud has been found in licensed child care centers and the schemes for perpetrating the fraud.⁸¹ DHS has not completed annual on-site inspections of all licensed child care centers and has needed a federal waiver of this federal requirement. DHS has implemented enhanced monitoring of high-risk child care providers and augmented its licensing staff; however, we think that the current DHS inspection strategies and staff complement are still insufficient to monitor child care providers and effectively hold accountable individuals seeking to defraud CCAP. We also heard suggestions that DHS should collect and maintain more information

⁸⁰ *Minnesota Statutes* 2018, 245A.04, defines information that individual or nonindividual applicants must provide.

⁸¹ OLA, Special Review, *Child Care Assistance Program: Assessment of Fraud Allegations*.

about child care businesses and their operations, such as periodic verification of ownership, employees, payroll taxes paid, and other business expenses related to child care. Current laws, however, may limit the accessibility of DHS to such information and require legislative changes.

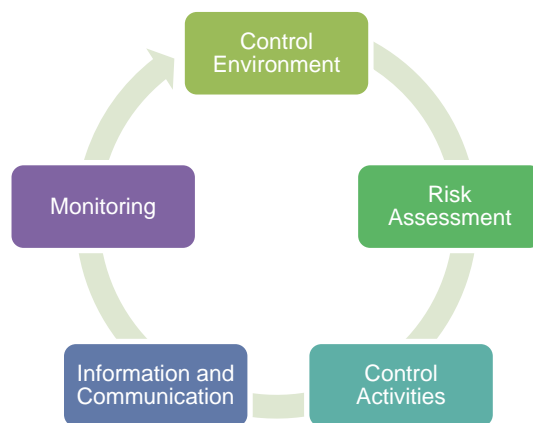
To address these concerns, we think that a more comprehensive evaluation by OLA of the licensing of child care businesses in Minnesota is needed, based on our brief review of licensing here but also from our understanding of the provider billing and payment processes and the allegations about fraud in CCAP. An OLA evaluation should, at a minimum, examine policy related to Minnesota's organizational framework for licensing child care, the design and implementation of program integrity controls (such as inspections), and issues related to reporting and billing by child care businesses. This topic also could address provider compliance with child care program standards.

IDENTIFY AND ANALYZE RISK OF IMPROPER PAYMENTS

FINDING 5

DHS did not adequately identify and analyze the risk of fraud in CCAP and had weak processes to coordinate investigations statewide.

Federal law directs DHS to have internal controls and processes in place to ensure integrity and accountability in CCAP, including processes to identify areas of risk and regularly evaluate internal control activities.⁸² DHS also must have processes to identify fraud or other program violations, investigate and recover fraudulent payments, and impose sanctions in response to fraud.⁸³ A strong system of internal controls begins with management's philosophy and approach to operations, and includes iterative processes to identify risk and monitor and communicate the effectiveness of control activities.



In this report, we examined DHS controls for CCAP and did not review the department's investigations of fraud, waste, and abuse. We address DHS fraud

⁸² 45 *CFR* 98.68(a) (2018).

⁸³ 45 *CFR* 98.11(a)(1), 98.16(cc), 98.60(i), and 98.68(b) (2018). The department's processes to identify fraud or other program violations may include, but are not limited to, record matching and database linkages, review of attendance and billing records, quality control or quality assurance review, and staff training on monitoring and audit processes.

investigations and related issues in our companion report, *Child Care Assistance Program: Assessment of Fraud Allegations*.⁸⁴

In 2012, DHS created a separate division—the Office of the Inspector General—within DHS to provide “comprehensive oversight and accountability of services and funds.”⁸⁵ However, the mission, authority, and responsibilities of the Inspector General (IG) and the office are not defined in law. Under this administrative structure, the IG reports directly to the DHS commissioner and is not a separate, independent oversight body.⁸⁶

DHS OIG—through its Financial Fraud and Abuse Investigative Division—implements, coordinates, and assists federal, state, and local law enforcement agencies in investigations of improper payments in CCAP. OIG also oversees the DHS Licensing Division that monitors child care centers’ compliance with laws, rules, and regulations.

To facilitate statewide efforts to control fraud, DHS implemented a statewide Fraud Prevention Investigation (FPI) program required by law that provides grants and operational standards for participating counties to prevent, detect, and investigate fraud in public programs.⁸⁷ In general, DHS sets overall policies and operational standards and investigates licensed child care centers, while each FPI county investigates CCAP recipient eligibility fraud and also some providers.

We concluded that OIG, in its lead role, did not develop and use information and resources available exclusively to the division to adequately analyze the risk of improper payments in CCAP and communicate this information to stakeholders. We also observed concerning deficiencies in the oversight and management of allegations of fraud in CCAP.

Manage OIG Fraud Cases

OIG administers CCAP fraud detection and investigations through the division’s Child Care Recipient and Provider Fraud Investigation Unit. In 2017, the CCAP Unit initiated 20 CCAP investigations and stopped payments to 4 CCAP providers. This Unit also receives tips of potential CCAP fraud or improper payments through DHS’s Fraud Tip Hotline and also takes referrals from local agencies who seek to have DHS OIG investigate fraud on their behalf.

⁸⁴ OLA, Special Review, *Child Care Assistance Program: Assessment of Fraud Allegations*.

⁸⁵ Department of Human Services, *2017 Annual Report Office of the Inspector General* (August 2018), 4.

⁸⁶ GAO, *Standards for Internal Controls in the Federal Government*, 22-33, describes principles for an oversight body and management to create an internal control system; for example, management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity’s internal control objectives.

⁸⁷ *Minnesota Statutes* 2018, 256.983. In Fiscal Year 2018, FPI grants were allocated to 14 single-county grant operations and 15 regional grant operations. In 2018, nine counties did not participate in the DHS FPI program; these counties were: Big Stone, Brown, Chippewa, Lac Qui Parle, Lake of the Woods, Mower, Ottertail, Renville, and Sibley.

Although DHS OIG is the lead agency for investigating CCAP fraud, the CCAP Unit lacked oversight of its own caseload. Specifically, we sought to collect basic information about the work of the CCAP Unit, including the incidence and nature of fraud complaints and referrals to OIG from around the state, OIG staff caseloads, and outcomes of cases. In early August 2018, we met with the Deputy Inspector General of the Financial Fraud and Abuse Investigative Division and the manager of the CCAP Unit to discuss these and other issues related to this topic. In response to our requests at that time, division staff were unable to easily provide us with information about the number of complaints and fraud case referrals to DHS, or the source, timing, or status of the case referrals.⁸⁸

OIG administrators also advised us that the CCAP Investigation Unit did not have policies or a formal intake process for screening and prioritizing tips or referrals, such as identifying duplicate cases or cases involving the same providers in multiple counties. Instead, tips and referrals are received by OIG in a variety of ways—such as e-mail or phone call—and, generally, are reviewed by a supervisor when investigative resources are available to take the next case.

As of early August 2018, the CCAP Investigation Unit also did not have a case management system for tracking pending or closed referrals and the status of ongoing investigations. A case management system helps ensure that OIG timely reviews tips, has a record of all tips received, tracks the outcome of tips, and associate tips for the same child care provider.

DHS's OIG also created a Fraud Prevention Investigation manual to guide counties' activities and lay out processes to pursue corrective actions, recover improper payments, and document the outcomes of their efforts.⁸⁹ However, the OIG CCAP Unit's internal processes did not follow management principles outlined within DHS's own FPI program manual, for example, the manual states that county investigators should prioritize referrals as a matter of workload management and to ensure timely outcomes.⁹⁰ Without using basic case management processes for its own workload, we do not believe that DHS can effectively identify and analyze the risk of fraud in CCAP.

Monitor County Fraud Prevention Investigations

State statutes direct DHS to maintain a local Fraud Prevention Investigation program for counties and carry out certain oversight responsibilities.⁹¹ In our interviews with management from the Financial Fraud and Abuse Investigative Division and the CCAP

⁸⁸ In response to our early August 2018 requests, DHS OIG provided us with the information in early September 2018.

⁸⁹ Minnesota Department of Human Services Office of Inspector General, *Fraud Prevention Investigation Program Manual*, July 1, 2017.

⁹⁰ Minnesota Department of Human Services Office of Inspector General, *Fraud Prevention Investigation Program Manual* (July 1, 2017), 27.

⁹¹ *Minnesota Statutes* 2018, 256.983. 45 *CFR* 98.11 (2018) requires that DHS must oversee the expenditure of funds by subgrantees and monitor programs and services.

Investigation Unit, we were advised that they do not monitor or direct local fraud detection and investigation activities and that OIG only provides an advisory role for these counties. For example, OIG facilitates quarterly meetings in St. Paul for local FPI staff and other stakeholders to share information about fraud trends and unusual activity. But, DHS does not require all counties with CCAP providers to attend these meetings and there is no mechanism—such as secure teleconferences or changing the meeting location—for investigators from remote locations around the state to participate.

In response to our requests, OIG staff also did not always have knowledge of or have access to complete information about local investigations that were pending or had been pursued and monies recovered by local human services agencies. Local human services agency staff are required to report to the OIG CCAP Unit any investigations that they have undertaken.⁹² They are also required to report within MEC² the outcomes of cases in which a violation and sanction was imposed as a result of either criminal fraud or administrative review proceedings. As follow-up to our requests, we found that some of the information we sought was located elsewhere within DHS. We were also advised that local human services agencies do not always report complete, or any, information about their ongoing or resolved cases to OIG.

Similarly, in a limited review of county fraud prevention and investigative activities, we observed investigative activities and outcomes that, in our view, raised concerns about program integrity in CCAP. For example, we saw great variation in the number of improper payment cases initiated by similar sized FPI counties; we do not know, however, if this is due to lack of reporting by local human services agencies to DHS.⁹³ We also learned that sometimes FPI counties did not place a high priority on investigating CCAP fraud. In Fiscal Year 2018, 78 of 87 counties received reimbursement grants totaling more than \$146,000 for CCAP investigations. We realize that counties may refer some cases to DHS for investigation; however, when compared with the total \$254 million in payments to child care providers, we think that the amount of reimbursement requests by counties is relatively low.

Coordinate Program Integrity, Statewide

We concluded that DHS has not sufficiently carried out its responsibility to identify risk of fraud in CCAP and coordinate its fraud controls over the program.⁹⁴ We reviewed DHS's previous risk assessments of CCAP fraud and believe that OIG staff understand well the nature of CCAP fraud and remedies to address CCAP fraud schemes. But, evaluating the risk of fraud in any program also requires compiling and using sound data on improper payments, and we observed enough deficiencies in DHS's internal

⁹² DHS, *Child Care Assistance Program Policy Manual*, "Policy 14.12: Fraudulently Obtaining Child Care Assistance," issued December 2015.

⁹³ Based on the cases that were reported to DHS.

⁹⁴ 45 *CFR* 98.68 (2018).

controls over CCAP—both internally and at the local level—to question whether the department has clear insight into actual fraudulent activities statewide.

DHS—through OIG and other department divisions—has access to information, systems, and communications with other investigative entities that could help evaluate internal control processes and develop a coordinated response to mitigate and recover improper payments. At the time of our review in 2018, OIG had not yet developed policies and a formal process to identify and fully quantify the costs of fraudulent activities in CCAP. We also were concerned about the lack of knowledge among OIG management regarding current OIG and local program integrity activities.

Federal law requires state agencies to have a process in place to identify areas of risk and fraud.⁹⁵ According to DHS OIG staff, their work is largely reactive and most OIG fraud cases are initiated in response to tips via the DHS fraud tip hotline or referrals from county CCAP staff. OIG CCAP investigators work with DHS licensors and have used data from MEC² to support their work, but the division only recently developed in-house resources and expertise to analyze available data to identify potential fraudulent applications and suspicious billing transactions from providers around the state.

Some reports estimate that fraud in CCAP exceeds \$100 million annually. We recognize that there are challenges in determining the amount of undetected fraud to create accurate fraud estimates.⁹⁶ Based on our limited scope special review of DHS's internal controls, processes, and reporting, we did not observe—and were not provided—sufficient evidence or data to support the \$100 million estimate.

RECOMMENDATION

The Legislature should direct the Department of Human Services to improve its internal controls and risk assessment of fraud in CCAP and develop an estimate of improper payments, including fraud.

In interviews with DHS representatives and management, we were advised that fraud in CCAP is a serious concern but that identifying and successfully prosecuting fraud presents challenges. But, we also observed missed opportunities for DHS to address gaps in the design and implementation of internal controls that would help prevent and detect fraud, support the investigation process, and help safeguard financial resources of the program.

First, OIG should develop case management processes to screen, prioritize, and document complaints and case referrals for its own CCAP fraud investigation activities. These controls will help ensure that OIG is at least responding to all allegations of CCAP fraud. Local human services agencies who believe they can rely on the DHS

⁹⁵ 45 *CFR* 98.68(a)(2) and (b)(1) (2018).

⁹⁶ GAO, *A Framework for Managing Fraud Risks in Federal Programs*, 36.

OIG CCAP Unit for investigative resources also could get better feedback about the status of any referrals. Similarly, DHS and local human services administrators should ensure that local agencies report their investigative activities to the OIG CCAP Unit as required by DHS policy. The OIG plays an important role in providing feedback to other DHS divisions about the effectiveness of CCAP controls. However, without better communication and use of basic case management processes for its own workload, we do not believe that DHS can effectively identify and analyze the risk of fraud in CCAP.

DHS also should enhance its analytics of data contained within MEC², licensure data, and information about state and local investigations. CCAP is a program in which providers may register through more than one county and recipients can move among counties. In our view, more proactive data analysis could help detect potential and actual fraud—including “organized crime” rings—and would be useful for DHS to create a statewide assessment of fraud and estimates of improper payments in CCAP.⁹⁷

To effectively manage fraud risk, management must create an organizational culture and demonstrate commitment to program integrity.⁹⁸ DHS in recent years has taken steps to address the risk of fraud in CCAP, including creating an Office of Inspector General and increasing the number of licensors and investigators. The department also has sought changes in state statutes to address what staff viewed as obstacles to program integrity and successful pursuit of investigations; however, not all of these initiatives were signed into law.⁹⁹ For our work on this special review, we concluded that these initiatives are commendable, but that more work is needed by DHS and local human services agencies to develop and coordinate sufficient policies, processes, and resources to identify and respond to the risk of fraud in CCAP.

⁹⁷ See, for example, GAO, *A Framework for Managing Fraud Risks in Federal Programs*, 36 and 38-41, for a discussion about estimating fraud and measuring the deterrent effects of prosecuting fraud; and GAO, *Standards for Internal Controls in the Federal Government*, 49. 45 CFR 98.100(d) (2018) states that improper payment:

“(1) means any payment of CCDF grant funds that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under...legally applicable requirements governing the administration of CCDF grant funds; and (2) includes any payment of CCDF grant funds to an ineligible recipient, any payment of CCDF grant funds for an ineligible service, any duplicate payment of CCDF grant funds and payments of CCDF grant funds for services not received.”

⁹⁸ GAO, *A Framework for Managing Fraud Risks in Federal Programs*, 9; and GAO, *Standards for Internal Controls in the Federal Government*, 9.

⁹⁹ For example, DHS sought and obtained further restrictions on the number of parents who received child care services by a child care center who could also be employed by the center. See *Minnesota Statutes* 2018, 119B.09, subd. 9a. In 2016, DHS sought to shorten the retroactive period of eligibility as part of receiving and processing redetermination forms; however, this provision was not passed into law.





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Commissioner Tony Lourey
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April 8, 2019

James Nobles, Legislative Auditor
Office of the Legislative Auditor
Centennial Office Building
658 Cedar Street
St. Paul, Minnesota 55155

Dear Legislative Auditor Nobles:

Thank you for the opportunity to review and comment on your office's report titled Child Care Assistance Program: Assessment of Internal Controls. We, at the Department of Human Services (Department), appreciate the effort and professionalism of you and your staff as your office worked with us throughout the special review process.

Minnesota's Child Care Assistance Program (CCAP) provides financial assistance that helps families with low incomes pay for child care while parents work or attend school or training programs. CCAP supports the state's broader goal of strengthening the economic self-sufficiency of families and providing all children with quality early childhood programs. It is also a key tool that families in underserved communities can use to help break the cycle of poverty, reducing the need for public assistance.

The Department appreciates and generally agrees with the report's recommendations regarding the Department's internal controls for the state's CCAP. The governor's budget and policy proposals for the Department include many provisions that address your recommendations for stronger controls in CCAP. Implementation of these recommended efforts will require meaningful and sustained community and stakeholder engagement to assure adherence to the fraud prevention mechanisms being proposed. The Department is committed to assuring that the ongoing development of the state's CCAP meets and protects the needs of the families and communities it is designed to serve. The Department offers the following responses to the report's recommendations.

Recommendation #1

The Legislature should direct the Department of Human Services and local human services agencies to expand their use of independent data sources to determine eligibility for the Child Care Assistance Program.

DHS should expand its quality assurance reviews of local human services agencies' CCAP eligibility determinations.

Response:

The Department generally agrees with this recommendation and plans to seek information on how other states utilize data sources for this purpose. We will also look at aligning with federal requirements for other public assistance programs to reduce the burden on families. For example, families receiving assistance from the Minnesota Family Investment Program (MFIP) report their current income which could be used in determining eligibility for both CCAP and MFIP.

We would also note that our current eligibility and verification process is compliant with state and federal laws as demonstrated by our performance on federally-required quality assurance reviews. To determine eligibility and level of benefits for CCAP, the state currently uses prospective income. We note that historical data, such as that provided by quarterly earnings reports, has limited use for this function. While independent data sources do add value, they are often limited in scope and lagged, making them less useful. This can complicate the eligibility process for counties, tribes and families seeking help with child care costs.

The Department will consider ways to expand its quality assurance reviews of local human services agencies while maintaining compliance with federal guidance.

Recommendation #2

The Legislature should direct the Department of Human Services to implement real time electronic reporting of child care attendance for CCAP.

DHS should enhance billing verification policies to reduce the risk of improper payments in CCAP.

Response:

The Department agrees with this recommendation. Electronic attendance reporting for child care attendance, with the capability to identify CCAP recipients, is a key tool for improving program integrity by supporting the accuracy of provider billing. We believe this functionality may be the most important step we can take as a state to improve the integrity and internal controls for CCAP. In 2018, the Department issued a request for information (RFI) to gather information on available products that could meet this need for Minnesota. We have also been researching the systems and processes other states are using for electronically tracking attendance in child care programs. To move to this type of system will require extensive engagement with local agency partners, child care providers and the broader community that uses our services. The Governor's supplemental budget has a request that supports the necessary steps toward adopting this type of data-driven system in Minnesota.

The Department will continue to evaluate policies around billing verification and make the necessary changes as new technology and processes are implemented.

Recommendation #3

The Legislature should direct the Department of Human Services to improve CCAP controls within the Minnesota Eligibility Child Care (MEC²) System.

DHS should more closely scrutinize situations in which local human services agency staff override MEC² system controls.

Response:

The Department agrees with this recommendation and will work with Minnesota IT Services (MNIT) to identify and improve system controls in MEC², including the monitoring of overrides by local human services staff. The external consultant hired by the Department, PFM, Inc., made further recommendations that we centralize registration of CCAP providers and enrollment for MEC²PRO users. Centralizing provider and payment management would create greater control and oversight of these functions, which are currently spread across all 87 counties and tribes. Instituting these changes will require extensive work and engagement with county and tribal agencies, and child care providers. The Governor's supplemental budget includes a proposal that will support the next steps toward planning for these changes.

Recommendation #4

The Legislature should direct the Department of Human Services to improve its review and monitoring of licensed child care providers.

DHS should comply with federal and state requirements to conduct annual inspections of child care providers.

Response:

The Department generally agrees with this recommendation. Beginning in Fiscal Year 2020, the Department is on track to meet the federal requirement for annual inspections of all child care providers. This is the result of a significant expansion in staffing for the Department that was approved by the legislature in 2017, and the hiring and training that has occurred over the last year.

The Governor's supplemental budget includes eight new FTEs to provide a significantly higher level of oversight and technical assistance to newly-licensed and other child care providers identified as high-risk providers for compliance issues and fraud. These new staff will expand the Child Care Center Licensing Unit's enhanced monitoring of child care centers with significant health and safety violations, which may be indicators of fraud.

The OLA also proposes as part of this recommendation that the Department collect more financial information from child care providers. However, the Department currently does not have the statutory authority to collect this information at this time. If the legislature expands the Department's statutory authority to require licensing applications to include this information, we would need to hire additional qualified staff at the Department to assess the documentation needed for this type of financial data.

Recommendation #5

The Legislature should direct the Department of Human Services to improve its internal controls and risk assessment of fraud in CCAP and develop an estimate of improper payments, including fraud.

Response:

The Department agrees with this recommendation and have already engaged our continuous improvement team to implement similarly aligned recommendations from the external consultant hired by the Department, PFM, Inc. The continuous improvement process currently underway is focused on formalizing business processes and improving the collection, analysis and management of investigation data. The intent

is to ensure that data is driving decisions regarding investigations by the Department and that data is used to better identify those providers at highest risk for fraud.

Improvement in data analytics at the Department will better identify and help prioritize which cases to investigate and which cases should be considered as criminal versus administrative actions. The Governor's budget proposal for this legislative session includes the necessary funding for a case management system for the CCAP Investigations Unit that is aimed at this recommendation regarding better data collection and analysis. Additionally, the Governor's supplemental budget includes two new FTEs that would focus on such data analytics.

The Department is also working to better diversify the skillset in the CCAP Investigation Unit, including hiring staff with expertise in financial investigations, such as forensic accountants. We are actively pursuing this in our hiring practices.

Thank you again for the professional and dedicated efforts of you and your staff during this special review. The Department's policy is to follow up on all findings to evaluate the progress made to resolve them. If you have any further questions, please contact Gary L. Johnson, Internal Audit Director, at (651) 431-3623.

Sincerely,

/s/
Tony Lourey
Commissioner

For more information about OLA and to access its reports, go to: www.auditor.leg.state.mn.us.

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